



# Postlethwaite & Netterville

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## INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Mr. Brad Jewell  
Pennington Biomedical Research Foundation  
Baton Rouge, Louisiana

We have performed the procedures enumerated below, which were agreed to by the Legislative Auditor of Louisiana, solely to assist you with respect to the accounting records of the Pennington Biomedical Research Foundation (the Foundation) for the year ended June 30, 2005. This engagement to apply agreed-upon procedures was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

Verified the Foundation's endowments for the Eminent Scholars Endowed Chairs Program and the Endowed Professorship Program have been managed in compliance with provisions set forth in the Board of Regents Statement of Investment Policy and Objectives.

*We noted that the Foundation maintained (through one of its external equity investment managers) funds in a real estate investment trust (REIT) in the amount of \$8,275 at June 30, 2005. While the Board of Regents' policy prohibits a direct investment in real estate, it does not specifically mention REITs in the asset allocation.*

Verified that the annual financial reports for the Eminent Scholars Endowed Chairs Program and the Endowed Professorship Program submitted to the Board of Regents were mathematically accurate and agreed to the accounting records of the Foundation. A listing of all the chairs with their corresponding account numbers is attached. (See Exhibit A)

*No exceptions noted as a result of the above procedure.*

Verified the Foundation has developed a spending plan for endowment earnings which is in compliance with Board of Regents guidelines.

*No exceptions noted as a result of the above procedure.*

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 11 / 09 / 05

Verified, in the sample selected for testing, the proceeds of the endowments for the Eminent Scholars Endowed Chairs Program and the Endowed Professorship Program were used as salaries or as a supplement for salaries or for other expenses related to scholarly work for eligible faculty members.

*No exceptions noted as a result of the above procedure.*

Verified the Foundation complied with all provisions of the Management Agreement with the University.

*No exceptions noted as a result of the above procedure.*

Verified investment earnings generated from pooled assets involving endowed chair or professorship money have been properly allocated to the chairs and professorships in accordance with the Louisiana Board of Regents Statement of Investment Policy and Objectives.

*No exceptions noted as a result of the above procedure.*

Verified the value of the state funds held by the Foundation as reported in its audited financial statements is equal to the amount recorded in the University's books.

*No exceptions noted as a result of the above procedure.*

Verified there is no regulatory oversight for the investment pool and that the fair value of the position in the pool is the same as the value of the pool shares.

*No exceptions noted as a result of the above procedure.*

*The value of state funds held by the Foundation as reported in the audited financial statements is equal to the amount recorded on the University's books.*

*The audited book balance at June 30, 2005 and 2004 of the Louisiana State University investments held by the Foundation was \$4,883,120 and \$3,454,128., respectively.*

*The audited fair value at June 30, 2005 and 2004 of the Louisiana State University investments held by the LSU Foundation was \$4,883,120 and \$3,454,128, respectively.*

*Based on an internal listing provided by the Foundation, and verified by confirming 100% of the Foundation's investments, the following is a description of the types of investments allocated to Louisiana State University funds held by the Foundation: equities; fixed income investments; and cash management accounts.*

*Sources used to determine fair market value of investments include monthly investment statements prepared by an external securities brokerage and clearing firm, Equitas Capital Advisors, LLC who uses stated market prices.*

We were not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on the specified elements. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the Foundation, the LSU System, and the Board of Supervisors, and should not be used by anyone other than these specified parties.

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
October 7, 2005

**EXHIBIT A**

United Companies/Harris J. Chustz Chair  
Claude Bernard Pennington Chair  
Douglas L. Manship Professorship in Diabetes  
Hibernia National Bank/Edward G. Schlieder Chair  
John Stauffer McIlhenny Professorship in Nutrition  
George A. Bray Jr. Super Chair in Nutrition  
George H. Bray Professorship  
Douglas L. Gordon Chair in Diabetes and Metabolism  
LPFA Chair in Nutrition  
Peggy M. Pennington Cole Endowed Chair in Maternal Biology and the Risk of Obesity  
John S. McIlhenny Endowed Chair in Health Wisdom  
Marie Edana Corcoran Endowed Chair in Pediatric Obesity and Diabetes

PENNINGTON  
BIOMEDICAL  
RESEARCH  
FOUNDATION

October 26, 2005

Louisiana Legislative Auditor  
P.O. Box 94397  
Baton Rouge, Louisiana 70804-9397

Re: Response to Agreed Upon Procedures Audit for the Eminent Scholars  
Endowed Chairs Program and the Endowed Professorships Program as of  
June 30, 2005

The Foundation was unaware that one of its external equity investment managers invested in a real estate investment trust (REIT). The investment was valued at \$8,275, or approximately .5% of the total chair and professorship funds at fiscal year end. The Foundation's external investment manager views REITs as equity investments, rather than direct investments in real estate, and includes REITs in their equity/common stock allocations. With regards to compliance with the investment policy of the Board of Regents, the external investment manager does not consider the purchase of publicly traded equity shares of REITs to be an area of concern for its Eminent Scholars clients.

However, in an effort to adhere to prudent man standard, and due to the uncertainty regarding the proper asset classification of REITs, the Foundation authorized its investment manager and investment advisor to immediately liquidate the REIT security on October 19, 2005. The Foundation also instructed its equity investment manager to refrain from purchasing REIT securities in the future until further notice from the Board of Regents and the Foundation, indicating that REITs are specifically included and allowed in the investment policy.

If you have any questions regarding this, or any other matter, please do not hesitate to contact me.

Sincerely,



J. Brad Jewell, CPA, MPA  
Chief Financial Officer